Bharat Forge Limited

Q4 FY10 Earnings Update

22nd May 2010

FY 2010 key performance highlights

Performance Highlights: FY 2010

- Sequential Quarter on Quarter improvement in standalone financial performance on the back of recovery in the Indian CV sector. Driven by this recovery, BFL production increased from around 22,000 tons in Q1 FY10 to more than 41,000 tons by Q4 FY10. Total sales for the Quarter increased by 92.9% on a YoY basis to Rs 5,624 million

- BFL achieved all time high domestic sales of Rs 3,427 million in Q4 FY10 on back of robust CV demand.

- Restructuring of manpower has been completed at the overseas operations and in the process incurred a net one time cost of Rs 742 million. The Scottish facility was shut down during the year & the assets and the business were transferred to the Swedish facility.

- Overseas operations have started posting improved performance on back of cost reduction measures & revival in markets. China operations also have turned EBITDA positive.

- Successful redemption of FCCB's of US$ 131.48 (Principal of US$ 102.25 million and Redemption premium of US$ 29.23 million) on April 20th 2010 out of surplus cash. Subsequently, the company also completed its fund raising programme through a unique triple barrel simultaneous offering of Equity, warrants & Debt with a total Issue size of Rs 6,261 million on April 28th 2010.

- Non Auto sector witnessing increased traction with new order wins from Nuclear, Oil & Gas and Railways sector.

- Company won an EPC contract for a 3X150 MW power plant

Bharat Forge Stand alone Financials – Q4 & FY 2010

Table 1 *Rs. Million*

Particulars	Q4 FY10	Q4 FY09	Growth %	FY 2010	FY 2009	Growth %
Shipment Tonnage	**39,022**	**18,246**	**113.9**	**127,538**	**133,755**	**(4.6)**
Domestic Sales Export Sales	3,427 2,197	1,723 1,202	98.9 82.8	11,454 7,110	10,562 10,024	8.4 (29.1)
Total Sales	5,624	2,925	92.3	18,564	20,586	(9.8)
EBIDTA Excl Other Inc.	1,406	436	222.5	4,370	4,460	(2.0)
EBIDTA %	***25.0***	***14.9***		***23.5***	***21.7***	
Other Income	120	143		324	478	
PBT before Exceptional item	822	(24)		2,021	2,440	(17.2)
PBT %	***14.6***	***(0.8)***		***10.9***	***11.9***	
Exceptional Item: Exchange Gain / (Loss)	(6)	987		(214)	(863)	
PBT	816	963	(15.3)	1,807	1,577	14.6
PAT	613	610	0.5	1,271	1,033	23.0

- In Q4 FY10, both domestic & Export sales registered growth of 98.9% and 82.8% respectively on a YoY basis. Total sales for the quarter grew by 92.3% on a YoY basis to Rs 5,624 million. BFL achieved all time high domestic sales in Q4 FY10.

- EBITDA margins for the Year & quarter were 23.5% and 25.0% respectively. The improvement in margins is attributable to increase in utilization rates & cost reduction measures implemented during the year.

- PBT before Exchange gain/ (Loss) for the quarter Rs 822 million as against a loss of Rs 24 million in the corresponding quarter previous year. For the full year, PBT before Exchange Gain/ (Loss) was Rs 2,021 million.

- Total Sales for the year came down by 9.8% to Rs 18,564 million with domestic sales recording a marginal growth of 8.4% to Rs 11,454 million on the back of strong performance of the Indian M&HCV sector. Exports for the year were down 29.1% at Rs 7,110 million, primarily on account of weak markets in Europe & USA.

Review of Business- Standalone operations

Following table summarizes the geographical distribution of the company's revenue streams in Q4 & FY 2010 against that in the corresponding previous periods.

Table 2 *Rs. Million*

Particulars	Q4 FY 10	Q4 FY 09	Growth %	FY 2010	FY 2009	Growth %
India	3,427	1,723	***98.8***	11,454	10,562	***8.4***
USA	1,265	530	***138.7***	4,038	4,359	***(7.4)***
Europe	860	621	***38.5***	2,837	4,933	***(42.5)***
Asia Pacific	72	51	***41.2***	235	732	***(67.9)***
Total	5,624	2,925	***92.3***	18,564	20,586	***(9.8)***

Review of Indian Market

After a sharp & drastic decline in volumes in the 2nd half of FY 2008 - 09, the Commercial Vehicle (CV) industry in FY 2009 – 10 witnessed strong recovery in sync with the recovery in macroeconomic factors such as Industrial production, freight movement, Exports etc and also partially aided by the federal stimulus.

For the year, the CV industry has grown by 35.9% on a YoY basis with the M&HCV segment growing by 30.1%.

Table 3: Domestic Automotive Production Data

Particulars	FY 10	FY 09	YoY %
LCV	316,437	224,587	40.9
Medium & Heavy CV	250,171	192,283	30.1
Total CV Market (M&HCV +LCV)	**566,608**	**416,870**	**35.9**
Passenger Cars	2,334,754	1,838,593	27.0
Total Auto Market	**2,901,362**	**2,255,463**	**28.6**

Source: SIAM

BFL's domestic sales, with a strong orientation towards the commercial vehicle sector have mirrored the growth seen in the CV space. From the all-time low of Jan – Mar 2009, the sector recorded quarter on quarter volume growth driven by a series of factors including revival in industrial activity, benign interest rates and federal stimulus.

For the year, BFL sales in to the CV sector were more than the market growth on account of market share gains.

Review of Export Markets

Europe

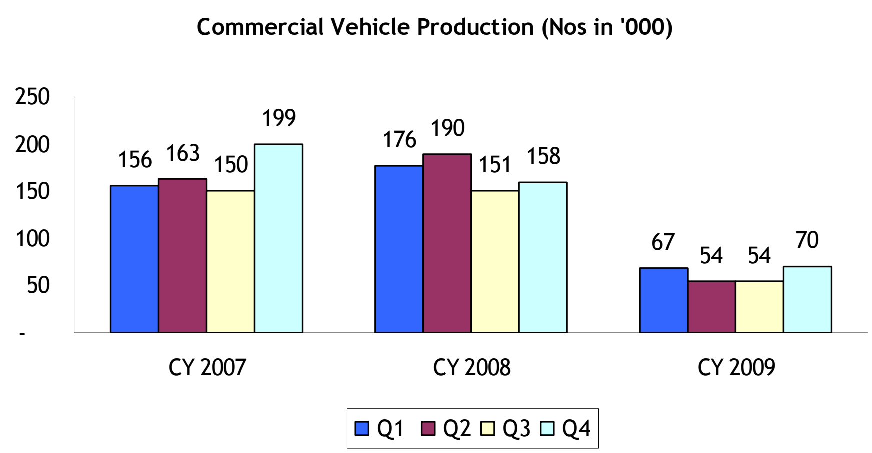
Table 4: European Automobile Sales

Europe sales Data	**Jan - Dec 09**	**Jan - Dec 08**	**YoY %**
LCV	1,421,872	2,041,020	(30.3)
Medium & Heavy CV	449,769	800,846	(43.8)
Passenger Cars	14,481,545	14,717,358	(1.6)
Total Auto Market	**18,060,182**	**20,085,060**	**(10.1)**

Source: ACEA

The automotive market in Europe, like the US market saw the implementation of "**Scrappage incentives**" ranging from € 1,500 to € 5,000 for passenger vehicles. This resulted in restricting the sales volume drop to just 1.6% on a YoY basis.

However, the Commercial vehicle saw sluggish demand & witnessed destocking of inventory through out the year as automakers adapted stocks & output levels to the economic situation. As seen from the graph below production levels in CY 2009 were down 64% compared to CY 2008. The production levels have stabilized and are starting to witness improvement as visible from Q4 numbers which grew by 30% over Q3.



USA

The US automotive market had a mixed year in CY 2009. The passenger vehicle segment aided by the "**Cash for Clunker**" scheme witnessed month on month volume growth from April 2009 and for the year, the segment recorded sales volume of 10.6 million vehicles.

The CV segment on the other hand was not propped up by any incentive scheme. The CV segment especially the Class 8 segment saw volume drop of 43% in CY2009. From its historic high levels reached in CY2006, the segment is down more than 70%.

Table 5: US Automotive Production Data

US Production Data	Jan - Dec 09	Jan - Dec 08	YoY %
LCV	3,313,500	4,670,852	(29.1)
Medium & Heavy CV	136,962	224,648	(39.0)
Passenger Cars	2,249,061	3,776,641	(40.4)
Total Auto Market	**5,699,523**	**8,672,141**	**(34.3)**

Source: Wards Auto

Outlook

Both the US & European automotive industry in CY2009 was affected by weak demand in underlying markets. The OEM's undertook production cuts & resorted to destocking for major part of the year. This had a severe impact on suppliers. In CY2010, we expect the markets to post marginal to moderate growth & in addition expect the building up of inventory to happen. In US, the recovery is expected to be strong on account of replacement of current fleets whose age is at an all time high, close to 7 years.

Non Auto Update:

Components Business

The new non auto facilities, HFD-II at Mundhwa, Centre for Advanced Manufacturing (CAM) Baramati and the Ring Rolling facility have come online in a phased manner in August 2008, March 2009 and January 2010 respectively & have started commercial production.

These facilities witnessed sub optimal utilization for major part of the financial year 2010 due to weak demand in underlying sectors such as wind, Oil & Gas, Marine etc to which these facilities are primed to address.

We have utilized the downturn to strengthen the core of the non auto business in the following ways

- Moved up the learning curve for new products and have completed the product development & approval process for most of the contracts.
- De-risked the non auto capacity across a diversified customer base both within & outside India by winning new contracts in the oil & gas, Power & transportation space.

During the Year, BFL won new contracts across sectors for supply of complex value added components for both domestic and export clients. Some of the contract wins include

- Contract from the Indian Nuclear power sector worth more than Rs 50 crores to supply end fittings for India's indigenous nuclear program. We are participating in other tenders also and are hopeful of winning more orders during the year.
- Wins from the Oil & Gas for supply of various parts for sub sea applications.
- Order wins from the Railways sector for supply of engine components & portal axles for locomotive in India & Europe.

The facilities in FY 2011 are expected to see an increase in utilization levels driven by commencement of serial production for new programs and ramp up of parts already under production. We reiterate our target of achieving 40% contribution from the non auto business by FY 2012.

Capital Goods Foray

Concrete measures on the capital goods foray have been initiated in FY10. The JV with Alstom will be located in the Mundra SEZ in Gujarat. The facility will be capacitized for 5,000 MW of supercritical TG sets and will also house the auxiliary business also. The JV has been technically qualified for the NTPC Bulk tender. BFL – NPTC JV for the manufacture of critical elements of Balance of Plants for the power sector will be located at Solapur, Maharashtra.

The equity contribution in to both the JV's is estimated to be approximately Rs 350 crores.

Today BFL is able to supply Safety & critical value added components, Manufacture of power plant equipments & provide Engineering solution thus being present across the full value chain in the power sector.

BFL's Capital Goods Division (CGD) has been set up to drive our power sector foray which consists of

- Manufacture of Power Plant Equipment in JV with Alstom
- Manufacture of Balance of Plants in JV with NPTC
- Project Execution (EPC).

The CGD has made a breakthrough in to the EPC Segment and has won a contract for a 450 MW power plant. The EPC activity will be carried out under a 100% subsidiary of BFL.

The foray in to EPC is a natural extension of our power sector foray & fits in well with our TG & BOP foray. We will leverage the synergy of the TG & BOP business to provide a complete cost competitive solution for the power sector.

Combined Financial highlights

The combined financial statement for Jan – Mar 2010 for Bharat Forge & its Global Subsidiaries is as follows. These incorporate the financial results of Bharat Forge Ltd. as a stand-alone entity, its wholly owned subsidiaries (WOS) only.

Table 6 ***Rs. Million***

Particulars	Jan - Mar 10	Jan - Mar 09	% Growth
Total Income	9,239	6,273	**47.3**
EBIDTA	1,614	334	**383.3**
EBIDTA %	***17.5***	***5.3***	
PBT before Exceptional Item	732	(546)	
PBT %	***7.9***	***-8.7***	
Exceptional Item: Exchange Gain/ (Loss)	36	1009	
PAT	560	203	

In Jan – Mar 2010, there has been a significant improvement in performance for BFL & its WOS on account of market growth, implementation of cost reduction initiatives including restructuring of WOS.

- Total Income for the full year increased by 47.3% on a YoY basis.
- EBITDA % of 17.5% in Jan – Mar 10 as against 5.3% in corresponding period previous year. Subsidiaries performance improved during the quarter & registered EBITDA % of 2.5% in Jan – Mar 10.

Consolidated Financial highlights.

The consolidated financial statement for FY 2010 for Bharat Forge & its Global Subsidiaries is as follows. These incorporate the financial results of Bharat Forge Ltd. as a stand-alone entity, its wholly owned subsidiaries (WOS) and of the China operations.

Table 7 ***Rs. Million***

Particulars	FY2010	FY2009	% Growth
Total Revenue	33,787	48,426	**(30.2)**
EBIDTA	3,896	6,252	**(37.7)**
EBIDTA %	***11.5***	***12.9***	
PBT before Exceptional items & Exchange Gain / (Loss)	142	2,443	
PBT %	***0.4***	***5.0***	
Restructuring & Redundancy cost	(742)	(299)	
Exchange Gain/ (Loss)	(45)	(1,037)	
PBT after Exceptional Items	(645)	1,107	
PAT after Minority Interest	(634)	583	

The performance of the wholly-owned subsidiaries was severely impacted by the downturn in both US & European automotive markets. The facilities overseas were running at very low utilization levels for the year. BFL's restructuring action including that of manpower right sizing and transfer of BFSSL's business to our Swedish operations have led to lowering of break even levels. As visible from Oct – Dec 09 and Jan – Mar 10 financials, the subsidiaries have seen an improvement in topline corresponding with the improvement in market conditions.

- Total Income for the full year dropped by 30% on a YoY basis.
- Restructuring and rightsizing exercise for overseas subsidiaries has been completed in 2009 with one time net cost of about Rs. 742 million
- China operations became EBITDA positive in Oct – Dec quarter and the momentum is expected to continue in CY10

Our target for CY2010 is to achieve break even at the overseas operations.

FCCB Repayment

BFL had raised capital via FCCB in two parts in April 2005 and April 2006 of US$ 120 mln and US$ 79.9 mln respectively. These funds were raised for organic & inorganic growth strategies. The first part of the FCCB (Principal of US$ 102.25 mln and Redemption premium of US$ 29.23 mln) was successfully repaid on April 20th 2010. The total outflow towards the repayment was approximately Rs 600 crores.

Fund Raising

Subsequent to FCCB repayment, BFL successfully completed the envisaged fund raising programme via the QIP route. The fund raising was achieved through a unique triple barrel simultaneous offering of equity, equity linked securities (Warrants) and debt. The fund raised will be utilized for our non auto and capital goods foray.

The total equity dilution including warrants is 7.4%. The warrants were issued at a price of Rs 2/- each with an option to the holder to subscribe to one equity share of Rs 2/- each at a conversion price of Rs 272/- each within a period of 3 years.

The details of the funds raised is provided below

Table 8

Particulars	No in Million	Price Per Unit	INR Million
Equity	10.00	272.00	2,720
Warrants- Issue Price	6.50	2.00	13
NCD @ 10.75% p.a.			1760
Total Funds Raised Immediately			**4,493**
Conversion of Warrants – Exercise price. Conversion period of upto 36 months, in the ratio of 1:1	6.5	272.00	1,768
Total Issue Size			**6,261**

Today post the FCCB repayment & fund raising, BFL has a very healthy balance sheet as shown below

Particulars	Standalone	Consolidated
Debt Equity ratio	0.88	1.14
Debt Equity ratio (Net of surplus funds)	0.57	0.76

Conclusion

Auto Business

- Expects strong momentum to continue on the domestic front on back of robust infrastructure demand

- Recovery on the export front led by the US CV market and market share gains in US & Europe

Non Auto Business

- New facilities were largely underutilized in FY10 due to weak demand.

- Non auto business should see robust performance on back of new contract wins, Improvement in business conditions & Completion of product validation process for most of the programs.

- BFL is well entrenched to benefit from the infrastructure growth in India on both the conventional auto business as well as the non auto business.

Overseas Business

- The overseas operations were running at sub optimal utilization levels during the initial part of CY09.

- Utilization levels improved across the board in sync with the markets.

- FY2011 will see utilization % further improving on back of revival in auto markets.

- The subsidiaries post the restructuring action has turned around & have become operationally profitable at the EBITDA level.

- We expect the subsidiaries including China to continue to deliver positive numbers for the coming quarters.

With both the auto & the non automotive markets recovering in FY 2011, capacity utilization in India & aboard should continue to improve putting BFL back on a strong growth trajectory.